

C O P Y

: Philadelphia, Pa.
March 2, 1918.

Dear Governor Harding:

In accordance with your request at the closing session of our conference yesterday, I take pleasure in submitting an outline of the plan of organization we have perfected in the New York District for the sale of certificates and the greater consolidation of banking resources into the Federal Reserve Bank.

While the organization was planned primarily to sell certificates it seemed to us that we should not lose the opportunity of developing it along lines which would permit of its cooperating with us effectively along the following lines also:

1. The sorting out of gold and gold certificates by every bank in the district and their shipment to us for credit or for exchange into Federal Reserve Notes.
2. The securing of a large proportion of the desirable State banking institutions as members of the Federal Reserve System.
3. The completion of our par list. (although we are collecting on every bank in the district, 76 banks are not remitting at par, but are being collected through Express Companies or Special Agencies.)
4. The education of every bank concerning the necessity of conserving credit.
5. The education of banks and their customers to reduce their requirements for new currency.

We felt that while we might be able to sell certificates satisfactorily by sending out salesmen we could not effect these other important

things through traveling salesmen; they require steady persistent effort from local sources. We, therefore, determined to establish a series of agencies throughout the district, the agents being bankers, to work steadily for the ends above described. Our plan was to have every bank in the district attached to one of these agencies so that our effort should be not merely comprehensive but complete. We were confronted, in the selection of our agents, with the possibility that we might create jealousies by our selections. For this reason and also to obtain their influence, we asked the State Bankers' Associations within our district to cooperate with us in this work and select the agents to act in the capacity of committees appointed by the Bankers' Association in its plan of cooperation with the Government and the Federal Reserve Bank for these important national purposes. The result is that we have about seventy bankers in the district, at appropriate geographical intervals, acting as committeemen of the State Bankers' Association and as agents for us in accomplishing the work above outlined. Each of these bankers has from ten to twenty-five banks in his immediate vicinity which he is charged with the duty of educating along the lines of the campaign. It is understood that the work is to be done not by letter writing but by personal interviews and by keeping in touch over the telephone. Each of the seventy bankers advises us from day to day, or week to week, of the attitude of each of his banks in respect to each of the items in our programme, and we record his reports in our card index of the banking institutions of the district.

We felt that it was important to get these seventy bankers thoroughly educated to the importance of the work, to the lines upon which it should be handled, and to the necessity for great discretion

and tact in carrying it out, before turning them loose on the district. Governor Treman, therefore, wrote a letter to the President of the Association outlining fully the programme and the method of approaching the subject, the substance of which he in turn communicated to his committeemen, and we then had all the committeemen come to New York and spend an entire day with us going over every phase of the subject. This latter step we consider of vital importance, as we succeeded not only in explaining the work thoroughly to them but in impressing each of them that in serving in this capacity he was acting as an agent of the government in a war activity of vital importance. A degree of enthusiasm among the committeemen, far beyond our expectations, developed as a result of this day's work.

We originally planned to get in an outside banker to handle the work from our end, but for the present this has not seemed necessary and Deputy Governors Treman and Case are looking after New York, and New Jersey respectively. As New Jersey is a divided State the Philadelphia Reserve Bank joined with us in organizing the campaign there. It is understood that the Federal Reserve Bank pays the out-of-pocket expenses of the committeemen in their work.

The result of the campaign, although just inaugurated, has already been to more than double the number of purchasers of certificates and to change the attitude of a considerable number of the 76 banks who were compelling us to collect on them by express. The leaders of these insurgents spent a day at the bank this week and determined to send out a circular to their associates urging them to remit at par for the period of the war as an evidence of their willingness to cooperate fully with the government during this period of national effort. This is a most

- 4 -

gratifying result to us. We have not yet presented a programme to our committeemen suggesting the lines on which they should recommend conservation of bank credit, awaiting a statement from the Federal Reserve Board on the subject. As soon as such statement is received it will be placed in the hands of our committeemen for discussion with their banks.

I am enclosing copy of Governor Treman's letter to the President of the New York State Bankers' Association outlining the programme.

In conclusion I may say that we all feel enthusiastic over the possibility of this intensive and permanent organization of our district, not only for the work immediately at hand but for the future relations between the Federal Reserve Bank and all the banks, member and non-member, in the District. To have some seventy centres of understanding of the Federal Reserve system and of personal influence upon which we can call, when needed, is a most valuable adjunct to a Federal Reserve Bank Organization.

Very truly yours,

(Signed) PIERRE JAY.

3/7/18

CONFIDENTIAL

February 1, 1918.

John H. Gregory, Esq.
President, Central Bank,
Rochester, N. Y.

Dear Mr. Gregory:

The growing extent and importance of the national financing together with the experience of the last six months in connection therewith have convinced the officers of this bank that the time has arrived when we must develop a more intensive and effective organization of the banks, both member and nonmember, in this district in order that we may be in a position to render the services required of us both for the national Government and for our own members.

We recognize of course that the responsibility for the success of the work of such an organization will rest primarily upon this bank but appreciate that the New York State Bankers Association, if it will cooperate with this bank in such organization, can be of very great value and assistance, and we are writing to you as president of the State Association to ask whether the association will thus cooperate with this bank and in addition, whether you personally can arrange to give a large portion of your time in the immediate future to this work.

The scope of the work at present contemplated, only part of which however need to be undertaken at once, is as follows:

1. To enlarge and broaden the market for the Government's short time certificates of indebtedness in which every bank in the district should participate.
2. To insure the sorting of all gold and gold certificates and their shipment to the Federal reserve bank for credit or for exchange for Federal reserve notes.
3. To educate the banks to reduce their requirements for new currency, which puts unnecessary burdens on the Bureau of Engraving and Printing.
4. To educate the banks how to conserve credit.

2/1/18.

John H. Gregory, Esq.

5. To bring desirable State banking institutions into membership in the Federal Reserve System.
6. To persuade the 76 banks in the district which are not now remitting at par that it is their duty to do so

The particular work to be done at the present time is along educational lines, much of which will require the exercise of great delicacy, every man in the organization in fact must be thoroughly convinced of the dangers which might arise through making any statement or taking any action likely to give rise to alarm. On the other hand, a great public service will be performed if the work results in gradually allaying any fears that may already have developed in the minds of bankers. Too great emphasis, therefore, cannot be laid upon the necessity for discretion and for the employment of able and discreet men in this work.

Referring to these in the order mentioned:

1. CERTIFICATES: Since the first sale of Treasury certificates of indebtedness I believe the banks in the City of New York have subscribed for something like 60% of the entire amount issued, the other 40%, or thereabouts, being very unevenly distributed throughout the United States. This condition cannot continue indefinitely. The Treasury Department officials desire the reserve banks to effect an equitable distribution of the amount allotted to each district and gradually to work to the plan that every bank in the United States will consider it to be its duty to subscribe regularly for a certain percentage of its resources. The percentage can only be fixed after experience and upon knowing the amount of each sale. Bankers purchasing the certificates may pay for them by credit, pledging the certificates or other prescribed securities as collateral, and the money at the Government's credit will be gradually and pro rata withdrawn, but the account again built up as new sales of certificates are made. The certificates, except those issued to anticipate taxes, payable in

June, are intended to be used in making payment for subscriptions to Liberty bonds but it is nevertheless desirable that banks that buy them should resell them to their customers as widely as possible. When a bank purchases certificates and pays by credit, no occasion arises to discount with the reserve bank, as a secured Government deposit does not require any reserve. As the Government withdraws the funds, the banks should accustom themselves to using the facilities of the reserve bank.

The statement will be made by many bankers that the Government deposits are withdrawn so quickly that they cannot afford to take the certificates; that the rate of interest is too low and that the demands of their regular customers preclude their accumulating the large amounts desired. All of these questions must be dealt with intelligently and tactfully. The principal difficulty, that of not having resources to meet the Government's requirements, will be covered in No. 4.

2. GOLD: Since the war began, this country has added over \$1,200,000,000 to its gold stock. Between \$1,700,000,000 and \$1,800,000,000. out of about \$3,100,000,000. is now held by the reserve banks. Probably \$500,000,000. or \$600,000,000. more could be accumulated through withdrawal of gold now in general circulation and the deposit of a larger proportion of that held in bank reserves. The reserve banks have now so organized their affairs that gold once paid in will not under ordinary circumstances be paid out as all demands for currency of \$100 denomination and under can be met by the use of Federal reserve notes, and, when pending amendments to the Federal Reserve Act become law, the demand for bills of \$500 and higher denominations can likewise be met by the use of Federal reserve notes.

Only three kinds of demands upon reserve banks for gold can cause a permanent loss:

One is through gold exports. These are under control as the re-

sult of the passage of the Trading With The Enemy Act.

Another is by the accumulation of gold reserves by the banks and trust companies. This can only be controlled by educational work and we must not create the impression by refusal to pay out gold that gold payments have been definitely suspended.

The third, and most serious loss of gold, would arise as a result of any ~~terracency~~ tendency on the part of the general public to hoard gold for fear they might not later be able to get it. In conducting the propaganda, therefore, we have to consider the danger of stimulating hoarding by banks and by the public.

No subject requires greater delicacy and skill. If it is handled wrongly we might create an alarm which would not only defeat the purpose of this plan of increasing our gold supply, but might bring about a great loss of gold by the reserve banks. At the outset, we particularly require information at the Federal reserve bank as to which banks are sorting their gold and shipping it to us. And the bankers themselves require education as to the importance of doing so, conducted, however, in such a way as not to alarm them. It is not so much the advantage of getting the gold which they now hold as it is to intercept the stress of gold certificates constantly passing through the banks so that they operate as sieves, all the gold being arrested and shipped to us and all payments of currency being Federal reserve notes. Once that process is started, the bankers will become accustomed to carrying only Federal reserve notes in their tills and we are likely to get most of the gold now held in bank reserves as well as gradually accumulate that in general circulation. The suggestion would be simply to have cautious inquiry made of each bank as to what its policy is in that respect; whether the tellers have any instructions and, if so, how diligently they are carried out. You will have to answer inquiries as to the reason for this policy and it can be pointed out that the desire of the reserve bank to increase its gold reserve is simply to enable it to protect the banking system, the need for which is greater in time of war than in time of peace,

and, in general, patriotism demands cooperation. No urgency should be exhibited.

The men undertaking this work must be cautioned that no publicity, practically no letter writing, and no urgency should be permitted. Newspaper articles, or even private discussion of this matter that might permeate through the general public would be dangerous.

3. NEW CURRENCY: One of the greatest embarrassments to the Federal Government and the reserve banks in connection with the Liberty Loans has been the inability of the Bureau of Engraving and Printing to furnish the actual bonds promptly. The reason for this is the immense pressure on the plan to prepare the great amounts of material required as soon as the war began. Part of the demand has been postage stamps and revenue stamps, part currency, and, of course, the chief demand, the bonds and interim certificates. If the bankers could be persuaded that ordinary economy in paying out new currency will relieve a great part of the strain on the Bureau, enabling them to get the Government bonds out more promptly, and enable them to meet the growing demands for small currency, it will be a distinct advantage all around.

4. CONSERVATION OF CREDIT: Here we reach a subject that literally bristles with difficulties. I shall not attempt in this letter to elaborate the arguments from an economic standpoint as to why our bankers must be educated, persuaded or even, if the war lasts, required to discriminate in extending credit. To illustrate the point, if the 28,000 banks in this country could affect a reduction of credit of only \$10,000 each, it would mean \$2,800,000,000 of liquidation and an immense strengthening of our reserve position. It would mean easier money, easier Government financing, in time lower prices for materials and a more adequate supply of labor.

It must not be inferred that old customers are to be embarrassed, that maturing loans must not be renewed, at least in part, nor the ordinary conduct of

the country's industries interfered with, certainly at the start. What we have in mind is to impress the bankers in this district with a sense of their responsibility to see that credit is not wasted any more than foodstuffs, fuel, or other necessities of life are wasted. I think every bank president and cashier should feel that it is his duty to inquire into the purpose of every loan that he extends to a customer, and, using reasonable discretion, so as not to cause embarrassment, loss, or even dissatisfaction, should be able to persuade his customer that he, likewise, has a duty to his Government, which can only be performed by avoiding unnecessary expenditure involving the use of labor, materials and credit.

Should the impression get abroad that the Government or the reserve banks intended to exercise such control over credit as to interfere with the business of the banks or bring hardship to their customers, we would create a state of feeling that would result in interfering with the conduct of the war. If, on the other hand, no steps are taken to conserve the resources of the country including its credit resources, we are going to have a period of expansion, elevation of prices and wages and general economic disorder, for which some day we will pay dearly as in the civil war. On item No. 4, therefore, I feel that the greatest caution is required and that only men of discretion and intelligence can conduct this educational campaign successfully and without arousing alarm.

5. STATE BANK MEMBERSHIP: New York City has led the country in bringing State banks and trust companies into the System. The total resources of the members recently admitted aggregate about \$5,000,000,000. We are anxious to extend the movement throughout our entire district in order that we may have a compact body of banks strong enough to take care of the requirements of the Government and to support each other through any emergency that may arise as a result of the war.

-7- John H. Gregory, Esq.

Lists have been prepared at the bank of all state banks and trust companies that are eligible for membership. These must be carefully examined and only those that would be desirable members dealt with. The various arguments as to why membership is desirable have already been prepared in much detail and can be furnished as required. It may be that at first this work should be conducted directly by the officers and employees of the bank, but I should hope not. If a field force could be persuaded to undertake this work in the near future, I believe we could count upon a great access of membership and one which would immensely strengthen our district in every way. We will need to establish a careful filing system in the charge of competent men at headquarters, in which a record of the attitude of each State bank may be maintained and an adequate follow-up system adopted. If this part of the program does not appeal to you at the moment, later developments may enable you to undertake it.

6. COLLECTION SYSTEM: There are now 76 State banks upon which we are collecting checks by express or through local representatives. There is no doubt whatever that the reserve system and its collection facilities have come to stay. If these 76 banks could be persuaded to come into the plan it will relieve us and them of considerable expense and trouble, and, what is more desirable, will remove one of those causes of irritation that does no one any good and, in the present national emergency, does distinct harm. You and your associates may not feel willing to undertake this work. On the other hand, your efforts in this direction would be much more likely to succeed than ours and, perhaps, after the elapse of some time, you may feel willing to undertake it.

Should the State Association be willing to cooperate in this matter and do so through their various groups, it would seem advisable to omit Group No. 8 which is in New York City, leaving that to be dealt with directly by the officers

-8- John H. Gregory, Esq.

of the Federal reserve bank or in such way as may be deemed best. Should you personally be willing to enter upon this work there are many important details of organization to be discussed and we suggest that you arrange, if convenient, to call at this bank on Tuesday morning before your meeting with the group chairmen. You will understand, of course, that this bank expects to arrange for all reasonable expenditures necessary.

This letter is unusually long but the subjects mentioned are so important that a detailed explanation of each seemed advisable. The work to be undertaken is as important as anything that we now have on hand.

We are confident of splendid results if a good organization is effected and directed with skill and caution and we need not assure you of the great sense of obligation which the directors and officers of the bank will feel if you are willing to undertake it, and the State Association will join with us.

Very truly yours,

Deputy Governor.

RHT/ELS